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Sustainable expatriate compensation in an uncertain environment

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ABSTRACT

This study examines an important area of strategic global human resource management - expatriate managers' compensation in times of global business uncertainty. While expatriation has numerous well-documented benefits for multinational corporations (MNCs), it is incredibly costly. In consequence, when global business conditions become uncertain, the expatriate program in MNCs is typically one of the first budget centres to be targeted for cost savings. The MNC typically radically restructures expatriate remuneration. The resultant effect of these actions is a negative impact on the relationship between the expatriate and the MNC, ultimately reducing expatriate performance and thereby abating the many advantages that the expatriate program brings to MNCs. Social Exchange Theory and Real Options theory help to provide a theoretical framework to understand how expatriate compensation decisions can help to create a desirable sustainable expatriate program in MNCs.

1. Introduction

The purpose of this study is to examine different options open to the multinational corporation (MNC) to more effectively and sustainably manage expatriate compensation in an uncertain environment. In uncertainty, the MNC typically must radically curb spending and often one of the most obvious choices is to reduce the operating costs of its subsidiaries (Lee and Makhija, 2009). The cost of the expatriate management program and in particular the cost of the expatriate remuneration package is typically targeted (Tait et al., 2014; Tornikoski, 2011). This action characteristically results in a reduction in performance of the expatriate and an increase in turnover (Perera et al., 2017; Van der Heijden et al., 2009).

One way of describing global economic uncertainty is through the lens of significant events like the 1997 Asian financial crisis that gripped much of East Asia and Southeast Asia, the US 9/11 attacks and the 2009 global financial crisis. Nevertheless, these significant events have by no means occurred in isolation. In just the last decade, a myriad of economic, political, and cultural clashes has made the world susceptible to the likes of repeated and largely unforeseen vicious acts of terrorism, unprecedented migration waves, global pandemics such as SARS and COVID-19, Brexit including other political leadership changes. Irrefutably, economic uncertainty is at record highs (Fahey, 2016) and, not surprisingly, challenges the MNCs readiness and ability to lead in economically uncertain times (King and Badham, 2019).

We put into question the readiness and ability of MNCs' strategic global human resource (SGHRM) to respond to the compilation of cascading challenges stemming from the greater economic crises in a global organizational setting. In particular, regarding an essential global employee - the expatriate manager. Expatriate managers remain the chief source of employees based in foreign

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markets (Brewster et al., 2014; López-Duarte et al., 2017). They represent a vital link to the MNC's headquarter and play a significant role in contributing to the success of the MNC in the 21st century (Harvey and Moeller, 2009). However, effectively managing expatriate assignees has proven to be a complicated endeavor (Pudelko et al., 2015), and managing their compensation has been one of the greatest challenges (Bonache et al., 2009; Tornikoski, 2011) that as yet remains neglected by scholars. Tornikoski (2011) defines expatriate compensation as a package or “bundle of total rewards”, namely a collection of interrelated valued rewards. However, since compensation is an essential tool used by MNCs to attract, motivate and retain valuable global assignees (Gupta and Shaw, 2014; Pate and Scullion, 2010; Tornikoski et al., 2015), this obvious gap in the scholarly literature is a subject worthy of greater scrutiny, particularly in times of increasing business uncertainty.

A central part of the problem with expatriate remunerations is that many MNCs have a short-term profit-driven focus (McNulty, 2014), particularly in uncertain business conditions and economic uncertainty (Maley and Kramar, 2014; Maley, 2019). Irrefutably, uncertain business conditions provide a pervasive reflex reaction to cost-cutting in MNCs (Bloom, 2014), global mobility (Salt and Wood, 2012), and expatriates in the form of salary and benefits (Tornikoski, 2011), due to their higher overall cost relative to national staff. Hence, they are an obvious target in the quest to reduce costs (McNulty, 2014). In this vein, we examine the following research questions:

“How does economic uncertainty impact the MNC's approach to expatriate compensation?”

Furthermore,

“How can MNCs create a sustainable expatriate program that best responds to the pressures of uncertainty?”

In response to the research questions, we place the study within the SGHRM and uncertainty literature. We draw on Social Exchange Theory (SET; see Blau, 1962) and Real Options Theory (Real Options; see Trigeorgis, 1996) to adopt a multi-level approach to examining the compensation of the expatriate manager in times of uncertainty. SET helps to understand the relationship between the expatriate and the MNC, and Real Options Theory assists the MNC in making investment decisions in ways that can reduce downside risk and enhance the scope to capitalize on opportunities that the uncertainty creates. Moreover, a real options framework is expected to take the greatest value during periods of abnormally high uncertainty (Lee and Makhija, 2008). The theories predict that by reflecting on the importance of social exchange and considering the merits of several options regarding the expatriate's compensation simultaneously, the MNC can preserve several benefits of an effective expatriate program in a crisis. In this study, we refer to the parties involved in the compensation transaction as the MNC and the expatriate, wherein the MNC reciprocates the bundle of benefits and/or a set of valued returns for the performance efforts of the expatriate. The benefits will ultimately lead to a sustainable competitive advantage for the organization.

The remainder of the paper proceeds as follows: First, we present a review of the literature. This section sets the scene with a depiction of uncertainty, a summary of the latest findings on expatriate compensation, and a description of SET and Real Options Theory. Following that, we advance a series of suggestions concerning expatriate compensation and SGHRM approaches. The findings reveal that there is a sustainable way to manage expatriate compensation in an uncertain business climate.

This research extends the application of the SET and Real Options perspective to the MNC context. It sheds light on the role of relationships (SET) and economics (Real Options) in times of uncertainty. In turn, the study contributes to the extant SGHRM literature by providing a theoretical based framework to help see that MNCs have choices in uncertainty. For the practitioner, this framework provides a means of understanding how decisions can focus on profit-maximization and maintain a sustainable expatriate agenda.

2. Literature review

2.1. Uncertainty

MNCs face uncertainty due to rapidly shifting conditions in their environment originating from macroeconomic forces, political occurrences, and/or competitive dynamics within the industry (Lee and Makhija, 2009). MNCs operate in an environment of uncertainty and typically struggle to adapt their existing strategy to the new circumstances which, in turn, can have a detrimental effect on the MNCs performance (Rivoli and Salorio, 1996).

The Cambridge dictionary describes ‘uncertainty’ as a situation in which something is unknown or the feeling of not being sure what will happen in the future. Economic uncertainty has been categorized into two kinds of unknowns: the unknowns we know we do not know about and the unknowns we do not know we do not know about (Rumsfeld, 1998). In his seminal work (circa 1921) on economic uncertainty, Frank Knight drew a distinction between risk, as referring to knowable probability and uncertainty, as referring to events for which it was not possible to identify probabilities (Leroy and Singell, 1987). While both types of economic uncertainty can be attributed to the MNC in uncertain times, it is the second kind of uncertainty, ‘Knightian uncertainty,’ that is the greatest risk to the sustainability of the MNC. Concurring with Knight's (1921) definition of uncertainty, more recently, Lee et al. (2008) suggest that high uncertainty typically stems from a change in the environment that is completely unanticipated and impossible to predict and therefore difficult to formally incorporate into the MNC's planning process.

The most detrimental outcome of uncertainty for the MNCs is the difficulty in identifying its ability to meet its financial and performance indicators (Bloom, 2014). This predictably will mean that there will be upward pressure on revenue growth and a downward squeeze on costs resulting and, inevitably, this means that there will be a tightening of expenditure budgets (Kamoche, 2003; PWC, 2009). Organizations must do more with less, leading MNCs to modify their internal SGHRM processes (Sanchez, 2003). This scenario typically reduces the willingness of MNCs to hire and invest in global employees (Bloom, 2014; Salt and Wood, 2012).

The 1997, the Asian financial crisis was one of the many recent events that created extraordinary uncertainty (Kamoche, 2003;

Lee et al., 2008). It transpired as the currencies of Asian countries depreciated against the US Dollar. The crisis quickly became an economic crisis as it impacted on all sectors of the economies. A decade later during the global financial crisis (GFC), Christine Lagarde, the IMF Managing Director, highlighted this problem when she observed in respect of the impact of macro uncertainty on micro HR issues: “there is a level of uncertainty which is hampering decision makers from investing in employees and from creating jobs” (IMF, 2012). While there are high profile examples of MNCs (such as American Express, Google, Accenture, AT&T, IBM, GE and Proctor and Gamble) that seem to have exemplary expatriate programs which appear to ride the cycles of economic crisis reasonably well (Staff, 2016); many others fail the challenge to effectively manage employees' compensation systems and other attributes (Luo, 2000; Maley, 2019). Typical exemplars of Mrs. Lagarde's sentiments can be seen in MNCs as diverse and successful as Boeing, Walt Disney, Sun Microsystems, Caterpillar, Sprint-Nextel, Texas Instruments, and Microsoft who all announced SGHRM restructurings, signalled drastic cost reductions and significant layoffs at the commencement of the GFC (Mohrman and Worley, 2009).

Micro economic uncertainty created by the GFC prompted many MNCs to change their entire SGHRM approach and expatriate programs were one of the first HR processes to be affected (Sheehan, 2012; Tornikoski, 2011). Economic uncertainty appears to raise questions about whether MNCs have the right number of expatriates and for the right reasons, given their higher cost relative to local staff. Maley and Kramar (2014) found that economic uncertainty creates added pressure on expatriates to work longer hours and their objectives and financial targets are almost certainly more challenging. Foote and Folta (2002) argue that austerity measures in a crisis often include the use of temporary labour which often encourages the employer not to invest in training. A situation which, according to Maley (2019), diminishes employee capabilities in the long-term. However, when investment in employees is maintained during an economic uncertainty, workforce productivity losses are found to be minimized (Zatzick and Iverson, 2006). Furthermore, MNCs that unswervingly invest in employees have been found to outperform competitors in uncertain times (Kim and Ployhart, 2014).

In economic uncertain times cost-cutting decisions are often pragmatic solutions that can have a desired short-term positive effect on the bottom-line. However, they can have enduring negative repercussions that manifest in ambiguity, complexity and information overload (Kochanski and Sorensen, 2005; Shen and D'Netto, 2012), especially if the decisions are made hastily (Carpenter and Fredrickson, 2002). Fig. 1 shows the domino effect of global economic uncertainty on compensation strategy and practice as it has

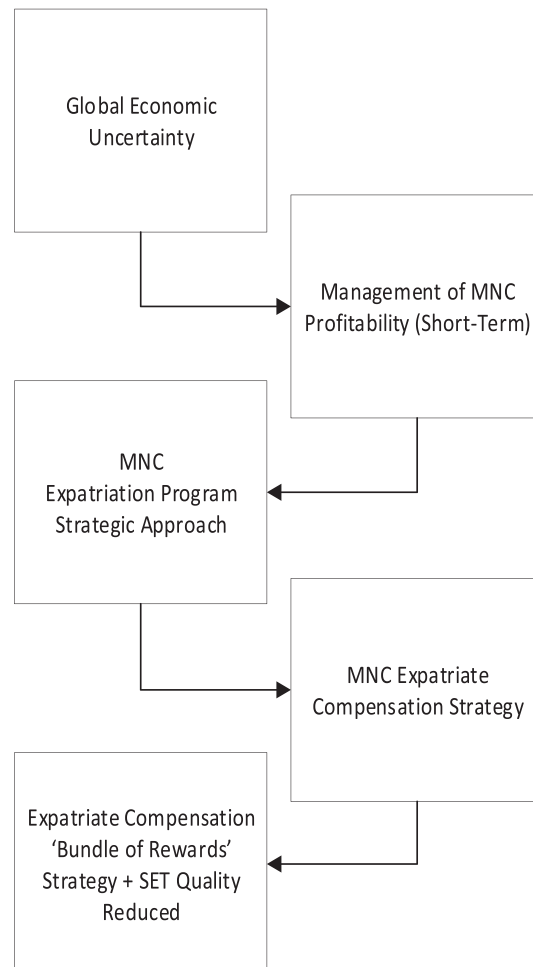


Fig. 1. Compensation challenges arising from global economic uncertainty.

been described in this introduction.

2.2. Compensation and the expatriate manager

In comparison with other expatriate research contributions, research on expatriate compensation strategic approaches are sparse and poorly understood (Gupta and Shaw, 2014; López-Duarte et al., 2017). As denoted above, we suggest compensation to be defined as a “bundle” of total rewards, namely a collection of interrelated valued rewards (Tornikoski, 2011). This bundle of rewards is defined as an exchange for a collection of employee inputs (Bloom and Milkovich, 1995; Gerhart and Milkovich, 1990). According to Bloom and Milkovich (1995) the bundle is a set of valued returns. It can include health care, additional holiday leave, study leave, sick leave, and privileges such as health club memberships, car allowances, and expense accounts (Miceli and Lane, 1991). Consequently, the bundle of valued returns view shifts our attention from an exclusive focus on cash-based pay to the relationship among all valued returns (Bloom and Milkovich, 1995), and the nature and characteristics of the bundle of rewards are embedded into the exchange relationship between the expatriate and the employer (Tornikoski, 2011).

The function of compensation or remuneration continues to be of strategic importance since it is used by MNCs to attract, motivate and retain valuable employees and it would serve the organization well to consider both the internal and external environments that the organization operates in (Harvey, 1993) to adequately assess how to compensate its global assignees.

Compensation influences the quality of the people who apply, the quality of those hired, the likelihood of job acceptance, the motivation and performance level of the workforce, and the quality of who stays with the company (Gupta and Shaw, 2014). Compensation is therefore arguably one of the most critical influences if not the most critical influence on the quality and effectiveness of human capital. Within the organization, the design of compensation approaches must be internally aligned with the business structures and global strategies as well as the organizational culture and national culture (López-Duarte et al., 2017). Therefore, a standardized approach to expatriate compensation packages, with a one-size-fits-all mentality, is not pragmatic. Indeed, Bloom, Milkovich and Mitra (2003) have found that in some cases a single approach works best whereas for others, several compensation approaches, each tailored to a specific host country, is adopted for successful alignment of organizational strategies.

2.3. Social exchange theory

Social exchange theory (SET) was initially developed in sociology (Blau, 1962; Homans, 1961) and sociology psychology (Thibaut and Kelley, 1959). It is widely recognized as one of the most influential conceptual paradigms for understanding behaviors (Emerson, 1976; Cropanzano and Mitchell, 2005). SET is a frame of reference within which both micro and macro theories can speak to one another, whether in argument or in mutual support (Emerson, 1976). Social exchange defined in this manner is limited to actions that are contingent on rewarding reactions from others and implies a two-sided, mutually contingent, and mutually rewarding process involving transactions or simply exchange (Standford, 2008). In other words, SET provides conceptions of interpersonal relationships as exchanges in which each actor engages to maximize the value they receive. More importantly this value can differ on the dimension of tangible or intangible (Martin and Fellenz, 2010). However, according to SET this relationship will only endure over time – and especially during times of economic uncertainty – of positive value, if accrued to all actors.

Many versions of SET exist, and they all share a common basic element that include exchange rules and norms that determine integrations and obligations or reciprocity. SET and the norm of reciprocity have been used to explain employee attitudes and behaviour and empirical research suggests that individuals engage in different reciprocation efforts depending on the exchange partner (Settoon, Bennett, and Liden, 1996). Hence, based on the specific exchange principles of reciprocity (Gouldner, 1960).

In the context above, SET is a valuable theory to consider in managing compensation as it incorporates both macro and micro factors and to be effective it needs to involve a mutually rewarding exchange. For example, reciprocity is at the heart of setting an effective approach to employee compensation, because compensation as an exchange requires a bidirectional transaction, something must be given, and something must be received (Cropanzano and Mitchell, 2005). This exchange operates at the micro-level between the expatriate and the MNC. At the same time, SET considers the macro-component of exchange concerned with subjective cost-benefit analysis and comparison of alternatives; it therefore sits well with Real Options Theory. Thus, SET is complementary to Real Options and at the same time builds on it.

2.4. The theory of real options

The Real Options paradigm offers an especially relevant framework for economic decision-making under uncertainty in the study of MNCs (Sanchez, 2003). Real Options theory is grounded in the fundamental instinct that people usually try to keep options open in circumstances that include an unpredictable future (Bowman and Hurry, 1993). It provides an alternative and dynamic view of the structural processes that define and frame strategy towards achieving sustainable competitive advantage (Smit and Trigeorgis, 2007). Real Options emphasize planning and the consideration of alternatives that focus on longer-term value creation and resource re-configuration rather than optimization and short-term profit attention (Miller and Arikian, 2004). A fundamental assumption of Real Options Theory is that organizational risk, or the future uncertainty about a firm's returns, will influence a firm's investment decisions in strategic assets and in their human capital assets (Bhattacharya et al., 2014).

Real Options theory has its basis in financial options that focusses on ways of managing risk in the purchase of financial securities (such as stocks) under conditions of uncertainty (Bloom et al., 2018; Bloom, 2014; Bowman and Hurry, 1993). Although its foundations are in finance, it has been used efficiently in strategic management. However, to understand the value of real options, it is

helpful to first examine the fundamental premise of conventional investment theory, which predicts that a firm will invest in an opportunity when the net present value (NPV) of the expected cash flows from a proposed project is equal to or greater than zero (Foote and Folta, 2002). For some time, strategists have been troubled with this criterion because projects often have a longer-term, frequently strategic value that may not be captured by NPV (Ragozzino et al., 2016).

Through option lens, strategy is seen as a process of organizational resource-investment choices or options (Bowman and Hurry, 1993). More recently it has been applied to a variety of HRM decision scenarios (i.e., Bhattacharya et al., 2014; Bhattacharya and Wright, 2005; Maley and Kramar, 2014) and human capital investments (Bhattacharya and Wright, 2005; Foote and Folta, 2002; Maley and Kramar, 2014; Sanyal and Sett, 2011). The option lens is particularly usual in SGHRM as it provides “a view of the MNC's resources - its capabilities and assets - as a bundle of options for future strategic choices and these options arise from the interplay of the MNCs existing investments, its knowledge and capacities, and its environmental opportunities” (Bowman and Hurry, 1993, p.762). In this light, the MNC exists as a process of strategic choices as well as a set of resources.

In Real Options language, human capital investments in terms of expatriate managers are expenses that an MNC incurs to attract, develop, and motivate with expectations of future return on investment (ROI) (Bhattacharya and Wright, 2005). Thus, all expatriate capital investment decisions impact the potential performance of the MNC and typically involve significant resource commitments (McNulty, 2015). Consequently, it is vital that MNCs incorporate mechanisms to methodically evaluate and manage the business risk of its human capital (McNulty, 2015), particularly in a dynamic marketplace continually threatened with economic uncertainty (Bhattacharya and Wright, 2005; Lee and Makhija, 2008). Flexibility is an important enabling mechanism in MNCs (Lee and Makhija, 2009) that is common to both SET and Real Options. In Real Options flexibility is exploited differently to SET, it is used to navigate business cycles and economic downturns (Bhattacharya et al., 2014). The underpinnings of the application of both SET and Real Option is embedded in the ability of options to exploit flexibility (Trigeorgis, 1996). This paper builds a dialog around the integration of strategic flexibility and illustrates how the integration of SET and flexibility can simultaneously assist with determining the optimum balance in expatriate compensation in times of economic uncertainty.

In principle Real Options terms incorporates flexibility via five possible strategies in relation to the expatriates' compensation: 1. Wait (to do nothing); 2. Abandon (to cease the expatriate program); 3. Extend (to increase the program); 4. Scale down (to limit the program) or 5. Switch (to make measured changes to the compensation). The pros and cons of each flexible strategy will be clarified in the next section. Nevertheless, the outcome is that uncertainty by necessity has generated strategic flexibility; uncertainty is thus through the lens of Real Options a source of value rather than cost (Trigeorgis, 1996).

In sum, Real Options can be considered an appropriate management framework for coping with an uncertain environment (Bhattacharya et al., 2014). An essential part of the ability of Real Options to be helpful for management of the expatriate total returns (see Fig. 2) is its ability to understand the contextual factors related to expatriate compensation and underscore the importance of considering business risks and other relationship risks factors as described in SET (i.e. a reduction in three areas: mutual support (Emerson, 1976); rewards from others (Standford, 2008); and tangible and intangible value (Martin and Fellenz, 2010), when making expatriate investment and compensation variability decisions. However, while Real Options significantly contributes to our

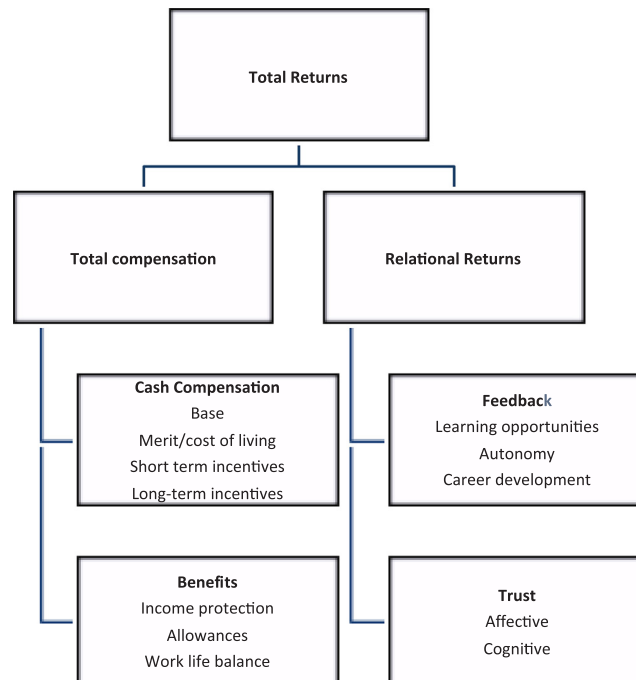

















Fig. 2. Total rewards for work.

Table 1

Total rewards pay model using real options and SET.

Real Options	MNC Cost Savings	Expatriate -MNC Social exchange impact risk	Viable Option
Wait 	No 	Yes 	No
Abandon 	Yes 	Yes 	No
Extend 	No 	NO 	No
Switch 	Yes 	No 	Yes
Scale down 	Yes 	No 	Yes

understanding of economics, it pays less attention to behavioral decisions concerned with uncertainty (Roemer, 2004). Therefore, a combination of both SET and Real Options seems to be a promising way of providing new insights into the management of expatriate compensation in uncertainty. Concurring to Real Options there are various realistic options regarding the expatriate compensation, these will now be discussed with SET in greater detail.

3. Applying the SET-Real Options framework

To consider what actions SGHRM practitioners need to take to successfully manage compensation of the expatriate in times of economic uncertainty, using SET and Real Options theories, we create a framework to manage expatriate total rewards in economic uncertainty. In accordance with Real Options, two steps must be taken to understand the conditions proximate to the expatriate compensation. The first is to systematically audit all aspects of the entire expatriate program. It is always crucial that there is a good fit between the MNC strategy and the business environment (Trigeorgis, 1996); the first rule of Real Options theory acknowledges this by initiating a rigorous audit of human assets. The second is to and select strategic options. The five basic choices of Real Options of 1.) Wait; 2.) Abandon; 3.) Extend; 4.) Switch or 5.) Scale Down will now be reviewed, aligned with their appropriateness for managing the expatriate compensation in economic uncertainty (Table 1).

3.1. Option 1: wait

The option to 'Wait' would entail making no immediate or short-term changes to the expatriate program. The advantage in a 'wait' strategy is that the MNC will continue to recoup the multiple benefits of the program as described earlier. According to Real Options theories benefits can be gained from delaying decisions until more information reveals itself. However, when the cost of waiting is excessively high, this advantage is rendered and deemed too risky (Eisenhardt, 1989) and high risk (Bloom, 2014). Equally, to wait and delay decisions relating to the expatriate program is perhaps an imprudent option because the MNC will continue to bear the full burden of expatriate costs. The impact that a 'wait' strategy may have on expatriate – MNC relationships is an unexplored phenomenon, it could be reasonable to assume that a wait strategy may cause some consternation for the expatriate and perhaps risk impairing reciprocity between the MNC and the expatriate. According to SET clear communication from the MNC will foster a strong emotional bond and reduce employee anxiety (Dasgupta et al., 2013). However, many leaders find it challenging to make decisions in uncertainty and delay communicating about important decisions (Bloom et al., 2018), which according to SET may increase sense vulnerability in employees, this, in turn, could have a negative impact on the reciprocity between the expatriate and the MNC. To wait is therefore a high-risk option.

3.2. Option 2: abandon

The option to 'Abandon' the program is likely to reduce costs and as such make an immediate positive contribution the bottom-line. Though, the benefits may be short-term and the MNC will certainly lose the long-term benefits invested in the expatriate program. Abandoning the program will almost certainly impact both tangible and intangible values for the expatriate. Tangible benefit in terms of salary could be terminated. In addition, intangible value as reciprocity between the expatriate and the MNC will be damaged if redundancy occurs (McNulty, 2014). Thus, the option to abandon has only fleeting cost value to the MNC, while according to SET annihilate expatriates tangible value and intangible value. Thus, under an abandon strategy the expatriate program

will ultimately impact negatively on long-term viability of the MNC. Abandoning the expatriate platform is consequently not a credible option.

3.3. Option 3: extend

Similarly, the option to 'Extend' the expatriate program will almost certainly be problematic. This option would incur a significant cost for the MNC, which were identified earlier as under severe pressure in economic uncertainty. While this option would most likely not impact negatively on the expatriate tangible values (i.e., her/his salary), intangible value-reciprocity between the MNC and the expatriate could be impaired. It is therefore not a viable option.

Therefore, options to 'Wait', 'Abandon' or 'Extend' carry significant risk in terms of meeting either short-term (wait/extend) or long-term (abandon) bottom-line demands. We make the point that all options up to this point impact negatively on expatriate managers' values – either tangible or intangible values. In terms of SET, the relationship between the expatriate and the MNC will only endure during times of economic uncertainty when a positive value is consistently accrued to all actors. Clearly, the first three options do not meet that criterion, hence we offer the following propositions:

Proposition # 1. A 'Wait' strategy enacted by the MNC will impact expatriates' bundle of benefits: Expatriates' tangible value (salary) remains unchanged, while intangible value (reciprocity with the MNC) will be impaired.

Proposition # 2. An 'Abandon' strategy enacted by the MNC will impact expatriates' bundle of benefits: Expatriates' tangible value (salary) will be impaired, while intangible value (reciprocity with the MNC) will also be impaired.

Proposition # 3. An 'Extend' strategy enacted by the MNC will impact expatriates' bundle of benefits: Expatriates' tangible value (salary) will be unchanged, while intangible value (reciprocity with the MNC) will be impaired.

3.4. Option 4: switch

The option to 'Switch' offers some optimism. For example, application of a switch option was recently demonstrated in Irish subsidiaries of large US Healthcare companies. Prior to the 2008 GFC, these large Irish subsidiaries were strategically important and MNCs invested heavily in manufacturing plants over the early years of the 21st century. However, Ireland was hit very hard by the GFC and several MNCs saw the recession as aggravating competitiveness. These difficulties were particularly related to the labor cost competitiveness of Irish subsidiaries as compared to other low-cost locations, and the challenges involved in winning future production and investment for the Irish subsidiaries (The Economist, 2011). It was widely projected that the plants would close, many jobs would be lost, and the entire expatriate assembly repatriated back to the US or retrenched.

However, these subsidiaries, contrary to all forecasts, survived the GFC intact and prospered largely owing to the subtle changes they made to their HR processes (Sheehan, 2012). The subsidiaries adapted certain HR activities. One such activity was the expensive outsourcing of training. The MNCs switched to in-house rather than outsourcing training and developed 'train the trainer' approaches. Although, the classic argument is that MNCs ought to outsource peripheral practices and internally perform those that are central to their competitiveness (Lepak et al., 2005); in the case of economic uncertainty outsourcing may not be a cost-effective option (Lepak et al., 2005).

Correspondingly, the MNCs adopted more innovative and cost-effective expatriate management practices during the recession including a cost-effective focus on experiential learning, leadership exchange programs and partnering with other organizations to realize global talent management goals. Such options helped maintain fundamental aspects of expatriate training and under the circumstances was acceptable to the expatriates. Hence, the design of the options in the Irish subsidiaries allowed the MNCs to exploit and benefit from uncertainty. In terms of the expatriate training, the selection of the appropriate Real Options maintained the development of expatriates at significantly less cost (Sheehan, 2012). The Irish subsidiaries demonstrate that changes can be made that do not harm the MNC's bottom line and minimise the damage to expatriate tangible value- the salary, as other cost reductions are pursued. Although, the outcome on employee - MNC social exchange in the Irish subsidiaries is not yet entirely clear, SET can help explain that distinctive communication to the expatriates, will maintain expatriate - MNC reciprocity and at the same time positive value will be accrued to all actors. For example, Mazzei and Ravazzani (2015: p 332) argue that "internal communication can mean the success or failure of any major change or crisis situation and needs the same analytical rigor that is given to external crisis communication and will impact on the level of trust and involvement in times of crisis." Consequently, we envisage that a strategy to switch accomplished with distinct communication may offer a balance of flexibility and could help maintain quality of reciprocity between the expatriate and the MNC. Thus, ensuing positive value to all actors. In this vein, we offer the following proposition:

Proposition # 4. A 'Switch' strategy enacted by the MNC will impact expatriates' bundle of benefits: Expatriates' tangible value (salary) incurs minimal disruption or remains unchanged, while intangible value (reciprocity with the MNC) is maintained.

3.5. Option 5: scale down

A strategy of 'Scaling Down' the expatriate program could also offer flexibility to balance expatriate and MNC compensation expectations in economic uncertainty. It is judicious to assume that cautious 'Scaling Down' in consultation and clear communication and regular feedback between the expatriate and her/his leader may help maintain a positive reciprocity between expatriate and the

MNC. For example, [Abu Bakar et al. \(2009\)](#) demonstrated that clear and frequent MNC communication to employees influences employee commitment to the MNC. As such, the expatriates' opportunity to communicate about and work are critical. According to [Abu Bakar et al. \(2009\)](#), the accountability rests on the leader to enable openness in communication and discourage the types of communication that leads to lower commitment to the firm. Thus, a strategy to switch or scale down according to SET may add value to all stakeholders (i.e., the expatriate, the leader and the MNC), and this may be a viable option. In this vein, we offer the following proposition:

Proposition # 5. A 'Scale down' strategy enacted by the MNC will impact the expatriates' bundle of benefits: Expatriates' tangible value (salary) remains unchanged, while intangible value (reciprocity with the MNC) is maintained.

3.6. *Tangible values: the impact of a redirection of expatriate compensation strategy*

The application of Real Options in uncertainty involves a combination of the right balance of strategic compensation options regarding maintaining the MNC's cost base and the expatriate manager's bundle of benefits or total rewards. Tangible value cash compensation assessments could start with reviewing the performance-based pay of the expatriate manager. Evidence suggest that increasing the ratio of performance-based pay, will increase global managers' performance levels ([Bhattacharya and Wright, 2005](#); [Shibata, 2000](#)) and has widespread implications for increasing revenue and MNC overall success ([Larkin et al., 2010](#); [Shibata, 2000](#)). Similarly, it has been found that the implementation of skill-based pay is also a cost-effective solution during an economic downturn ([Bhattacharya and Wright, 2005](#); [Shibata, 2000](#)). In the case of the expatriate, skill-based pay could be linked to the advancement of their capabilities. For instance, capabilities to manage conflict and build trust which are vitally important for the expatriate ([Vlajčić et al., 2019](#)) could be enhanced, with an assortment of stakeholders. Thus, tactical Real Options, while recognizing that training proactively is vital, also advocates expatriate training must develop certain capabilities essential to manage economic uncertainty. Therefore, part of the expatriate overall total returns for work must be focused on giving the expatriate the capabilities that will empower her/him in uncertainty.

3.7. *Intangible values-relational benefits*

Relational benefits of compensation for the expatriate have been argued to be poorly acknowledged by MNCs who invariably focus entirely on the cash aspects of the total rewards and misunderstand or downplay the relational and social exchange benefits of compensation as seen through the lens of SET. For example, the principle of reciprocity reinforces a rule of behaviour in social exchange situation that highlights the social obligation underlying the principle ([Gouldner, 1960](#)).

They favor financial pay over other rewards, and this has rendered the expatriate's traditional compensation as essentially financial or monetized ([Brewster et al., 2014](#)). It has been emphasized that leaders and HR specialists do not have enough knowledge regarding what expatriates want or find motivating such as social atmosphere, career development and job content ([Pate and Scullion, 2010](#); [Tornikoski et al., 2015](#)).

A positive social atmosphere occurs when there is positive reciprocity and social exchange between the expatriate and the MNC. However, when the MNC implements austerity changes to the expatriate program – that reciprocity could be destabilised and the social exchange impaired. However, the damage to the relationship between the MNC and expatriate could potentially be minimized with effective and distinctive communication. It is therefore essential that communication from leaders is timely and candid in economic uncertainty. For instance, a supportive leader ought to be able to provide details on key elements of changes to the total rewards program that may ensue due to economic uncertainty. Additionally, career advice as part of performance management should be mandatory ([Maley and Moeller, 2014](#)). Expatriate managers need reassurance that there remains a career path with the MNC when restructuring.

3.8. *Expatriate manager and SET*

The quality of social exchange is often lost when communication between the MNC and the expatriate manager typically changes in uncertainty from feedback relating to the development of the expatriate to control issues and the achievement of profit targets ([Maley and Kramar, 2014](#)). Since, feedback has been found to be one of the critical elements for effective performance and is seen as one of the important ways in which a MNC can isolate the development and career needs of the expatriate ([Harzing and Noordhaven, 2005](#)); the upshot of such unconstructive changes in feedback may influence many aspects of the social exchange and ultimately a change in employee behaviour as demonstrated by [Mayer et al. \(1995\)](#). Therefore, in an economic uncertainty evidence points to inevitable restructuring of an expatriate's tangible - cash component of her/his total rewards (i.e. merit cost of living, short-term incentives, long-term incentives, benefits such as income protection, and allowances). However, intangible values embedded around relational returns such as autonomy, feedback, learning opportunities, career development is also impeded.

Thus, the extant literature points to economic uncertainty as a critical mediating variable on all aspects of the expatriate's entire recompense. According to [Bonache \(2006\)](#), the impact of a global compensation system may affect individuals positively or negatively, and much is dependent on the context. Needless to say, determining a satisfactory compensation package that responds to the needs of the expatriate(s) and the MNC may pose several challenges and impasses ([Harvey and Moeller, 2009](#)). Balancing the expatriate's total returns for work is important in a stable environment ([McNulty, 2014](#)) in an unstable economic environment, it takes on even more significance and is paramount ([McNulty and De Cieri, 2011](#)).

4. Implications

We focus on economic uncertainty and posit that HR functions are distinctly impacted by uncertainty. Our paper extends the extant literature by using the lens of SET and Real Options logic to develop arguments about how to explain and predict changes in the SGHRM approach to compensation for expatriates on assignment. We offer insight into how the options differ from those in a less uncertain environment, the mechanisms which are at play and how they inform and extend theory of expatriate management. What remains outside the scope of this paper is insight into how options for compensation relate to options pertaining to the expatriate or the program more generally, and how the MNC network is related to expatriate option values. This paper sets the theoretical framework for initial empirical examinations of the relationship proposed between economically uncertain times and explains how expatriate compensation decisions can focus on profit-maximization for the MNC, and at the same time encourage high quality social exchanges between expatriates and the MNC.

4.1. Practical implications

For leaders, it might be interesting to have some more guidance on what measures can be taken to align the expatriate program strategy in unstable and uncertain economic times. The two options that are offered in this paper focus on the choices to switch or scale-down the expatriate program in order to stabilize short-term profitability of MNCs in economic downturns. The option of scaling-down should not be a last resort but an opportunity to review the expatriate program regularly. As outlined before, the compensation approaches and the expat strategy itself should be aligned with the global company strategy, the respective business structure and fit into the overall organizational culture. A shift of the economic context should not lead to an overhasty elimination or total cut of the expatriate program. Overall, this is a program to foster talent which, as a pipeline and retention measure, would be at risk if the program is cut completely. Therefore, a thorough assessment process should be conducted before making impactful choices.

When scaling-down is considered an option, leaders should consider following questions: (1) which placements are critical to strategic considerations, (2) which countries are critical for the overall business strategy, (3) which roles can be filled locally, (4) can talents in the pipeline, waiting for an international assignment, be retained differently, (5) which implications do scaling-down measures already have on the payroll sheet? As expatriates, future or current, are one group of the global talent management pool (AIRINC, 2017; Farndale et al., 2010), leaders need to carefully consider the potential scaling down options. If done hastily, MNCs can potentially lose their global or potential global leaders as competition for these intercultural experienced talents is fierce (Farndale et al., 2010).

Leaders need to assess whether and which positions are critical for an overall organizational success. Therefore, communication is key and should increase in order to understand the business' needs as well as pain points (AIRINC, 2017). The decision which current and future expatriate positions are most critical to business and overall strategic success have to be made with consensus. Being aware of potential future assignees enables HR to include these employees into official talent management pools while also being made aware of the necessity to include them into communication when thinking about scaling-down the program. Earlier made potential promises on assignments by the business unit might not be able to be delivered. It already touches on our second option, the switch option, which we will elaborate in the subsequent paragraph. However, it is important when thinking about sending less people abroad with a traditional expatriate contract to communicate openly about other options for future assignees and include them into the discussion process early on. For a sustainable expatriate program, future assignees still need to see their career advancement and training opportunities while also being given a sense of engagement in the work they are doing (Ott et al., 2018). We argue that relational returns are as important as compensation, hence, involving the future assignee into the conversation about different options is crucial in order to retain high quality social exchanges.

When scaling-down entails sending less employees to overseas locations the implications on costs could already be tremendous. That is, because expatriates belong to the most expensive workforce and an expatriate assignment can cost up to one million US Dollar per annum depending on industry and length of contract/assignment (PWC, 2006). Hence, when taking the outcome of the above-mentioned questions into consideration, these changes made to the program without yet repatriating current expatriates might make an impact in decreasing the costs already, which, as a consequence, could have a positive outcome on the payroll sheet. Another option to reduce costs could involve phasing out current contracts with expats and introducing newly and lower negotiated contracts for future assignees (Zihlmann, 2014). In our view, valid contracts on international assignments should be untouched or only changed as a last resort. That is, because expatriates are highly skilled experts and expensive workforce which is why chances are high that these global managers might leave the company if repatriated sooner than stipulated by contract (Collings et al., 2007; Farndale et al., 2010; PWC, 2006).

4.2. Switch option

In addition to the case study of the Irish subsidiary of a US Healthcare company outlined earlier there is another option to be considered when thinking about flexible choices of strategic outline of the expatriate program. There are some new approaches to the traditional expatriate assignment that emerged in the last one or two decades (Collings et al., 2007; Demel and Mayrhofer, 2010; Welch and Worm, 2012). These new approaches include (1) frequent flyers, (2) international commuter assignments, (3) short-term assignments, (4) virtual assignments or (5) permanent transfers (Collings et al., 2007), where the former two are often referred to "Flexpatriates" (Demel and Mayrhofer, 2010) or International Business Traveller (IBT, Welch and Worm, 2012). They all have in common that the employee is not relocated to another country, hence, does not fall under the term of expatriate or international

assignee (Welch and Worm, 2012).

Flexpatriate programs offer an alternative to long-term assignments by giving the opportunity of international commuting and frequent flying. This option eliminates the challenges for expats to move abroad along with their family and the arising side costs that might be involved (e.g. school fees for the children, double careers partner visa, relocations costs, etc) (Collings et al., 2007). However, it enables the MNC to expand the company's network without the high costs of a traditional expatriate assignment. In times of uncertainty this option provides the opportunity to send assignees abroad while meeting cost constraints. When being a flexpatriate, the assignees' overall compensation bundle is not affected which results in relational returns remaining intact while still offering career development perspectives. Yet, a thorough assessment (e.g. on physical and mental fitness and resilience) despite just the technical qualifications should be considered due to the substantial amount of travelling (Demel and Mayrhofer, 2010). While decreasing costs it still enables the build-up of a personal network and face-to-face interaction (Collings et al., 2007). This option is particularly helpful in Europe (Demel and Mayrhofer, 2010) and Southeast Asia, where a lot of destinations can be reached by a short-haul flight (Collings et al., 2007). A limitation to this option might be the distances among countries outside Europe or Southeast Asia.

Short-term assignments offer the possibility to send future assignees to other locations for the duration of up to one year (Collings et al., 2007; Welch and Worm, 2012). This option still offers some degree of personal development and training for the assignee while achieving organizational goals with a partial amount of the costs compared to a full international expat assignment (Collings et al., 2007). A short-term assignment does not involve the relocation of the assignee and her/his family, but it involves usually heavy travelling and being away from home for some time.

A virtual assignment can be offered to future assignees to already start working with a new team overseas without being relocated. Virtual assignments are especially useful for recurring tasks; however, they fall short when it comes to the necessity of face-to-face communication (Collings et al., 2007) and personal network building. It should be taken into consideration though, that a virtual assignment might not meet the expectations of a future assignee who was up for discussion to receive an international assignment. A virtual assignment might be a weak substitute for an international assignment. However, that is left for speculation and depends on the individual. From a talent management and retention perspective, we would advise a careful consideration of this switch option.

The last option to discuss is the possibility to switch current expatriate managers permanently to their host country payroll. That way, costs for the home country payroll could be reduced significantly (Collings et al., 2007) while maintaining a solid network between the host and home country location through the transferred manager. The precondition is, of course, that the current expatriate manager is willing to stay in her/his host country. Although it is outside the scope of this paper, our argumentation triggers several future research questions for consideration in economically uncertain times, for example: (How) should talent versus non-talent be compensated? What is/are the salary and/or perks for emerging market global managers? How does uncertainty influence female global managers' inclination to pursue international assignments? How are compensation "distortions" across global compensation programs by location of assignment addressed? To what degree can/must corporate headquarters be involved in the development, management, and change of global compensation programs? What is the bargaining power of expatriates during this uncertainty? These questions and more, require a nuanced theoretical approach, as the world continues to phase in and out of economically uncertain times.

5. Conclusion

In this paper, we have endeavoured to predict that by reflecting on the importance of social exchange and considering the merits of several options, the MNC can increase the sustainability of the expatriate program in a crisis. Accordingly, the paper examines the implementation of compensation practices in the context of high economic uncertainty and interprets the mechanisms through which to hedge risks. The paper generally points to a greater degree of difficulty in implementing a compensation in uncertainty. Moreover, it emphasises how Real Options by way of increasing flexibility of mind-sets can be utilised as a strategy by MNCs to address expatriate compensation problems in uncertainty. As a response to the first research question: *"how economic uncertainty impacts the MNC's approach to expatriate compensation,"* the findings in the study suggest that in global economic uncertain times, expatriation compensation strategic approaches will trigger restrictions on expatriates' compensation packages which trigger changes in expatriates' relational returns. This scenario could in turn elicit changes in cognitive and affective trust.

As a response to the second research question: *'how MNCs can create a sustainable expatriate program that best responds to the pressures of uncertainty,'* the findings imply that in global economic uncertain times, MNCs will struggle to sustain their expatriate program if they do not balance or generate flexibility in expatriates' total compensation and relational returns. This conceivably signifies that economic uncertainty can best be managed by creating value for both the MNC and the expatriate by means of flexibility within an options-based technique. In terms of the program being sustainable, there is a clear argument for MNCs to shift away from a fixation on economic boundaries towards a more balanced and sustainable viewpoint of investment in human capital (Kamoche, 2003).

This study delivers a guiding framework for future research in the field of expatriate compensation in the context of uncertainty. Significantly, we conceptualize compensation as a multidimensional paradigm influenced by a set of dynamic macro and micro factors. We suggest that complex SET exist among these factors and further research is required to understand their impact on expatriate compensation. A major contribution of this conceptual framework is the potential to identify new factors and influences relevant to a sustainable expatriate management strategy and expatriate total rewards. While conceding the challenges inherent in expatriate total rewards, our research is a forging step in understanding the impact of economic uncertainty and expatriate

compensation in the 21st century.

In concluding, the impact of the economic uncertainty of the past ten years has been substantial. The global workplace has changed in ways that MNCs could not have imagined. A more complex world is driving the need for HR managers to deliberate and overhaul existing expatriate strategies. Brexit as a transformational change event raises even more significant challenges for not only the UK but the domino impact on the entire global economy. Hence, the expatriate bundle of benefits may be particularly susceptible to Brexit with critical industry sectors facing significant threats and uncertainty. The necessity to move talent around the world – and do it productively and cost effectively - has never been more crucial to successful global strategy. Yet, presently, only a small number of MNCs seem to be effectively rising to this challenge. The results of this study suggest that knee-jerk reactions to the expatriate program as a response to economic uncertainty could be highly detrimental to the future competitive advantage of the MNC. Chung and Beamish (2005) assert that the fundamental concern for MNCs is not the identification of the best expatriate staffing practices that work all the time; but finding the optimal strategy that is aligned with the external environment. We contend that expatriate compensation is a pivotal decision in this respect.

This conceptual study makes a valuable and inimitable contribution to SGHRM scholarship. It is valuable because compensation is arguably one of the most critical influences (if not the most critical influence) on the quality and effectiveness of human capital. Compensation influences the quality of the people who apply, the quality of those hired, the likelihood of job acceptance, the motivation and performance level of the workforce, and the quality of who stays with the company (Gupta and Shaw, 2014). The contribution is inimitable because the phenomenon of economic uncertainty has not previously been examined in relationship to a diffusion of SET and Real Option theories and their usefulness in understanding the expatriate total rewards model.

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